

CHAPTER 5  
OPERATING LOAN GUARANTEE PROGRAM  
[Prior to 4/22/87, Iowa Family Farm Development Authority[523] Ch 5]

**25—5.1(175) Operational definitions.**

*“Beginning farmer”* means an individual or partnership as defined by Iowa Code chapter 175, that became engaged in farming on or after January 1, 1982.

*“Displaced farmer”* means a person who discontinued farming on or after January 1, 1982, due to foreclosure or voluntary liquidation for financial reasons, and who was actively engaged in farming for at least one year prior to discontinuing farming.

*“Net worth”* means total assets minus total liabilities as determined by the lender, in accordance with rules of the authority and accepted accounting procedures.

*“Total assets”* shall include, but not be limited to, the following: cash crops or feed on hand; livestock held for sale; breeding stock; marketable bonds and securities; securities (not readily marketable); accounts receivable; notes receivable; cash invested in growing crops; net cash value of life insurance; machinery and equipment, cars and trucks; farm and other real estate including life estates and personal residence; value of beneficial interest in a trust; government payments or grants; any other assets.

Total assets shall not include items used for personal, family or household purposes by the applicant, but in no event shall such property be excluded to the extent a deduction for depreciation is allowable for federal income tax purposes. All assets shall be valued at fair market value by the participating lender. Such value shall be what a willing buyer would pay a willing seller in the locality. A deduction of 10 percent may be made from fair market value of farm and other real estate.

*“Total liabilities”* shall include, but not be limited to, the following: accounts payable; notes or other indebtedness owed to any source; taxes; rent; amount owed on real estate contract or real estate mortgages; judgments; accrued interest payable; and any other liabilities.

**25—5.2(175) General provisions.**

**5.2(1) *Loan period.*** The loan period shall not exceed one year following the date the participating lender has advanced the first funds for the operating loan. The authority shall have the option to extend the loan guarantee for an additional year. The loan guarantee will automatically expire on the expiration date unless extended by the authority. The authority shall guarantee only one operating loan for each beginning farmer or displaced farmer.

**5.2(2) *Fees.*** The authority may charge reasonable and necessary fees needed to defray the costs of the loan guarantee program.

**25—5.3(175) Loan eligibility.**

**5.3(1)** The loan guarantee fund shall not be used to guarantee a loan where the ratio of the beginning or displaced farmer’s liabilities, excluding the amount of the loan, to net worth is greater than three to one.

**5.3(2)** The authority shall not issue a loan guarantee to be used to refinance existing loans held by any lender eligible to participate in the loan guarantee program.

**5.3(3)** Purposes for which guaranteed loan proceeds may be used include items needed for a successful farming operation. Such items shall include: livestock feed, seed, fuel, fertilizer, lime, chemicals, building and machinery repair and maintenance, cash farm rent, breeding fees, veterinary fees, livestock medicine, storage and warehousing, interest, real estate taxes, insurance for crops and buildings, utility expenses for farm purposes, freight and trucking expense, machine hire, hired labor, repairs of livestock and poultry equipment. No operating loan guarantee funds shall be used for personal or living expenses or for capital goods.

**25—5.4(175) Application procedures.**

**5.4(1)** Application will be made on customary and appropriate forms approved by the authority. Each application will include, but not be limited to, the following: names and addresses of beginning or

displaced farmer and participating lender, amount of loan, statement of beginning or displaced farmer's net worth determined in accordance with the authority's rules, length of loan guarantee plus certain certifications of the beginning or displaced farmer and lender including the ratio of the beginning or displaced farmer's liabilities, excluding the amount of the loan, to net worth.

**5.4(2)** Applications for loan guarantees will be taken and processed by the authority on a first-come, first-served basis.

**5.4(3)** The authority shall, by a majority vote, approve each loan application before an operating loan guarantee will be issued.

**25—5.5(175) Total amount of loan guarantee.** The authority, under its operating loan guarantee program, will pay to a participating lender 75 percent of the actual amount of a loan deficiency, except that in no event will payment exceed \$18,750 on any single loan guarantee, provided that:

1. Guaranteed loan is in default;
2. Amount of loan deficiency has been documented to the satisfaction of the authority;
3. Participating lender has satisfied all of the requirements of the authority's operating loan guarantee and operating loan guarantee program;
4. All other sources of payment have been pursued and fully exhausted.

The amount of loan deficiency shall include principal, accrued interest and liquidation expenses which can be attributed to the guaranteed loan.

**25—5.6(175) Allocation of loan funds among lenders.**

**5.6(1)** No participating lender shall be eligible to obtain loan guarantees for more than an aggregate principal amount of \$100,000.

**5.6(2)** Reserved.

**25—5.7(175) Security for loans.** The lender shall take security, cosignatures, guarantees, sureties, etc., that the lender or authority deems necessary for any loan.

**25—5.8(175) Loan minimum.** There will be no minimum amount for a loan under this program.

**25—5.9(175) Administration of loans.** Lenders shall hold the loan instruments and shall receive all payments of principal and interest. The holder of the note (lender) shall not, without prior consent of the authority:

1. Make or consent to any substantial alterations in the terms of any loan instrument;
2. Make or consent to releases of security or collateral on the loan;
3. Accelerate the maturity of the note;
4. Sue upon any loan instrument;
5. Waive any claim against any borrower, cosigner, guarantor, obligor, or standby creditor arising out of any loan instruments.

All servicing actions shall be the responsibility of the lender who shall follow accepted standards of loan servicing employed by prudent lenders generally.

**25—5.10(175) Sharing of repayment proceeds and collateral.** Lenders shall not acquire any preferential security, surety, or insurance to protect the unguaranteed interest in a loan. All repayments, security, or guarantee of any nature, including without limitation, rights of setoff and counterclaim, which the lender or the authority jointly or severally may at any time recover from any source whatsoever or have the right to recover on any guaranteed loan, shall repay and secure the interest of the lender and the authority in the same proportion as such interest bears respectively to the unpaid balance of the loan.

Any loan or advance made by the lender to a borrower subsequent to a guaranteed loan, secured by security or collateral pledged for the guaranteed loan will be subordinate to the guaranteed loan.

**25—5.11(175) Events of loan default.**

**5.11(1)** After a loan is in default for a period of 30 days, the lender shall have 10 days to file a report regarding the status of the loan to the authority on forms provided by the authority.

**5.11(2)** The authority may at its option, any time a guaranteed loan is in default, purchase from the lender the note, security agreements, additional guarantees, and other documents for an amount equal to the authority's guarantee. In the event the authority exercises this option, it will issue to the lender a participation certificate representing the lender's unguaranteed interest in the loan. The authority would become the servicer of the loan in such case.

**5.11(3)** All reasonable and necessary expenses incurred by the lender or the authority which are applicable in the liquidating of a guaranteed loan, which are not recoverable from the borrower, cosigners, guarantors, or any other sureties shall be shared ratably by the lender and the authority in accordance with their respective interests in any such loan. If expenses are incurred by the lender to collectively liquidate loans of the borrower, including both the guaranteed loan and another loan or loans not guaranteed by the authority, the authority will guarantee only a pro-rata share of the necessary expenses associated solely with the liquidation of the guaranteed loan.

These rules are intended to implement Iowa Code sections 175.2 and 175.30.

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[Filed 4/3/87, Notice 1/28/87—published 4/22/87, effective 5/27/87]<sup>2</sup>

<sup>1</sup> See Agricultural Development Authority[25], IAB 11/19/86.

<sup>2</sup> Transfer of Ch 5 did not appear in Notice of Intended Action.